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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001950

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SUBJECT: PREMIER CHANG ON DEFENSE BUDGET, CROSS-STRAIT  
RELATIONS, AND DPP POLITICS

Classified By: AIT Director Stephen M. Young, Reason 1.4 (b/d)

11. (C) Summary: Premier Chang told the Director on August 23 that the proposed 2008 defense budget raises defense spending to 3 percent of GDP and is important for Taiwan. Chang said Taiwan continues to work on the expansion of charter flights across the Taiwan strait and the lifting of restrictions on PRC tourists to Taiwan, but assessed that Beijing would be unlikely to compromise on these issues in an election year. The formation of the Hsieh-Su presidential ticket will help the DPP to restore party unity and has greater appeal than a Hsieh-Yeh ticket would. In an aside, one-on-one conversation, the Director emphasized the on-going U.S. opposition to President Chen's UN referendum. He also underscored that the "normal country" resolution currently being debated within the DPP, possible constitutional changes, and the tabling of a defensive referendum remain areas of U.S. concern. The Premier assured the Director that the latter three issues would not gain much traction, but emphasized that the consensus to pursue the UN referendum was quite strong within the party and Taiwan society as a whole. End Summary.

12. ( ) In a meeting with Premier Chang Chun-hsiung on August 23, the Director commended the Premier for putting together a 2008 annual budget that raises Taiwan's defense spending as a proportion of GDP to 3 percent. The Director noted that this is a strong sign to the U.S. of Taiwan's determination to boost its defenses. The Premier responded that he had personally insisted on meeting the 3 percent level, noting it was important for Taiwan.

13. (C) Chang told the Director that Taiwan continues to discuss with Beijing the expansion of charter flights across the Taiwan strait and the lifting of restrictions on PRC tourists to Taiwan. Chang said the administration has also made clear to Beijing Taiwan's position on the Olympic torch route and nomenclature, but so far he is uncertain of reaching a resolution. Chang acknowledged, however, that Beijing would be unlikely to compromise with the DPP administration on these issues in an election year. Noting that Beijing now has a more sophisticated approach to dealing with Taiwan than in the past, Chang believes China is unlikely to interfere in Taiwan's domestic politics in a way that would advantage the DPP presidential candidate or stoke

anti-China sentiment among Taiwan's voters.

¶4. (C) Turning to discuss domestic politics, Chang said the "external" situation in 2008 favors the DPP as it did in 2000 and 2004. This time around, however, the party underwent a fierce internal competition to produce its presidential candidate and the resulting fissures will take time to heal. The formation of the Frank Hsieh (Chang-ting)-Su Tseng-chang ticket will help to restore party unity and appeal more widely to voters than Hsieh's initial plan to team up with now Presidential Office Secretary-General Yeh Chu-lan. While the Hsieh-Su match is progress, Chang suggested the DPP leadership still has to do more to unify the party and prepare for the upcoming presidential and legislative elections.

¶5. (C) Yeh's agreement to continue to work for the Hsieh campaign will help the DPP keep its share of Hakka supporters, Chang asserted. The DPP will also have to work with its pan-Green partner, the Taiwan Solidarity Union (TSU), to try to field only one Green candidate per district to maximize the pan-Green seats in the next legislature. Chang noted that he was still holding some positions in his cabinet open in the hope of bringing TSU members into the fold and boosting the prospects for cooperation. Chang emphasized that failing to reach a compromise with the TSU could have a negative effect on the DPP's prospects in the legislative races, but would have no effect on the presidential race. (Comment: TSU Legislator Lai Hsing-yuan, however, told AIT separately on August 24 that this coordination effort has completely fallen through, and that the TSU is moving to nominate a full slate of legislative candidates. Unless the DPP bends and either allots some seats to TSU candidates or, more likely, buys them off with

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job offers, Lai told AIT, the DPP could end up with less than 35 of the 75 LY district seats. End Comment.)

Director's one-on-one with the Premier  
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¶6. (C) In an aside, one-on-one conversation, the Director emphasized the on-going U.S. opposition to President Chen's UN referendum, which AIT has clearly communicated to Chen and other DPP leaders. The Director also underscored that the U.S. is concerned by other initiatives proposed by DPP Chairman Yu Shyi-kun and others within the DPP that could further damage an already fragile bilateral relationship. The Director specifically mentioned the "normal country" resolution currently being debated within the DPP, possible constitutional changes, and the tabling of a defensive referendum as areas of U.S. concern.

¶7. (C) Chang explained that Chairman Yu has been aggressively pushing these initiatives, but had failed to forge unity within the party on them. Yu is increasingly isolated within the party because of these initiatives and his poor performance in general, Chang said, predicting that as a result Yu was unlikely to remain party Chairman through to the elections. The Premier assured the Director that the "normal country" resolution, constitutional change, or a defensive referendum would not be approved by the party in the remaining months of the Chen administration. Nevertheless, he said the U.S. needs to understand that in an election year there will be a certain amount of rhetoric on such subjects and that the consensus to pursue the UN referendum was quite strong within the party and Taiwan society.  
YOUNG